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Indonesia

Oilseeds and Products

VAT Exemption of Non-branded Cooking Oil

2007

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Report Highlights:

On September 24, the Ministry of Finance exempted non-branded cooking oil from the local value added tax, following an increase on the export tax of CPO and its derivatives.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Jakarta [ID1]
[ID]

On August 31, 2007, the Minister of Finance issued a decree increasing the export tax on crude palm oil (CPO) and its derivatives as follows:

CPO Export Tax and its derivatives						
International Price/Reference Price (CIF Rotterdam USD/MT)						
Group	CPO & Derivatives	< 550	550 - 649	650 - 749	750 - 849	? 850
I	FFB & Kernel	40%	40%	40%	40%	40%
II	CPO n Derivatives RBD Olein Crude Olein Crude Stearin Crude PKO Crude Kernel Stearin Crude Kernel Olein	0%	2.5%	5.0%	7.5%	10.0%
III	RBD PKO RBD Stearin RBD Palm Oil	0%	1.5%	4.0%	6.5%	9.0%

In addition, on September 24, the Ministry of Finance exempted non-branded cooking oil from the local value added tax.

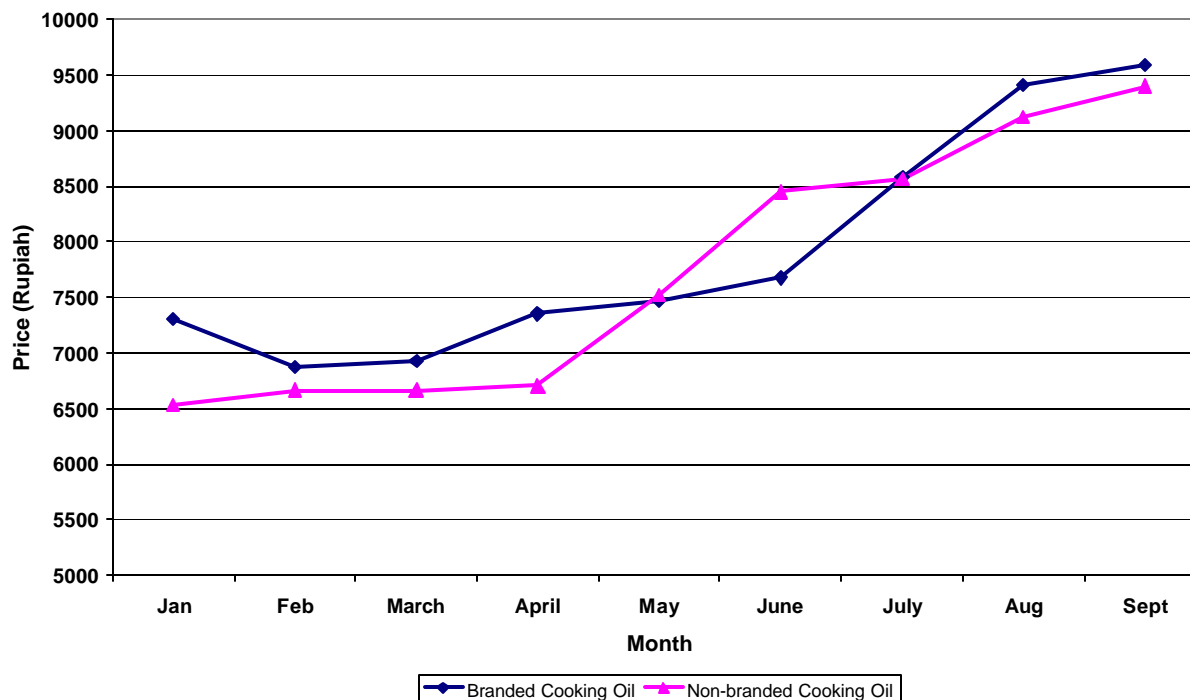
The Indonesian government hopes the tax will limit the amount of crude palm oil being exported and thus increase the supply of CPO used to process cooking oil to be sold on the domestic market. The new tax rates represent an increase for the highest tax from 6.5 to 10 percent. The increase and exemption on non-branded cooking oil is in reaction to recent increases in the domestic price of cooking oil this year. During the week of September 5, prices increased 8 percent over the previous week alone. Current retail prices are 41 percent higher than in January 2007. Non-branded cooking oil prices increased faster than branded cooking oil so that for about 10 weeks starting in May, the price of non-branded cooking oil was higher than the price of branded cooking oil. The Indonesian government is particularly concerned about the price of non-branded cooking oil because it is commonly used by poorer households, the vibrant household industry that makes snacks at home for sell by street vendors, and warungs, the small open-air roadside restaurants that are very popular in Indonesia.

To counteract the negative press reports about high cooking oil prices, large CPO producers have been seen in the press distributing cooking oil at subsidized prices to the disadvantaged or in areas affected by natural disasters.

There is no anecdotal evidence to suggest that exports will experience a sharp decline in 2007. Reportedly India, which can account for 45 percent of Indonesia CPO exports, enacted a decrease in its CPO import tax and Malaysia production is down. According to data from the Indonesian Ministry of Trade and the State Secretary, CPO exports increased 19 percent in July over June. Historically, an export tax does not necessarily discourage exports, but has often encouraged smuggling, particularly to Singapore and China.

The peak period of domestic CPO consumption usually occurs around the Idul Fitri holiday when families gather together. Exports typically decrease during this time. Due to the lack of evidence that there has been a sharp decline in 2007 exports of CPO, FAS/Jakarta will not change its estimate of 2007 CPO exports at this time.

Prices of Branded and Non-branded Cooking Oil January - September 2007



Source: Market Information Center, Ministry of Trade, 2007

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